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May 25, 2006

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**AMENDMENT NO. 1 TO AFFILIATION AGREEMENT NO. 75086
BETWEEN THE COUNTY OF LOS ANGELES AND THE CHARLES R. DREW
UNIVERSITY OF MEDICINE AND SCIENCE
(Second District) (3 votes)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve and instruct the Mayor of the Board of Supervisors to execute Amendment No. 1 to the Affiliation Agreement between the County of Los Angeles and the Charles R. Drew University of Medicine and Science (Drew University), Agreement No. 75086, in a form substantially similar to the attached Exhibit, to make substantive changes to and extend the Agreement for one year, from July 1, 2006 through June 30, 2007, for the provision of clinical and academic services at Martin Luther King, Jr./Charles R. Drew Medical Center (KDMC) and Hubert H. Humphrey Comprehensive Health Center (HHHCHC), and delegate authority to the Director of Health Services (Director), or his designee, to allocate Academic Services Units between specialties as needed as long as the total cost of Academic Services Units is not exceeded. The maximum annual County obligation in Fiscal Year 2006-07 under this amended Agreement will be \$12,029,152.
2. Approve the Department's recommendation for payment to Drew University from existing funds retroactive to October 1, 2004, for a total amount not to exceed \$1,707,916, which payment results from the new definition of Academic Service Units, and \$683,417 which payment results from University paid stipends to recruit new Department Chairs to fill vacancies in Psychiatry, Otolaryngology, and Neurosurgery; to promote the Acting Chair of Family Medicine; and to retain two Vascular Surgeons. Retroactive payment to the University will not change the maximum annual County obligation in any Fiscal Year.

PURPOSE/JUSTIFICATION OF THE RECOMMENDED ACTION:

In approving this action, the Mayor is being authorized to execute Amendment No. 1 to this Agreement to make substantive changes to and extend the Agreement for one year, from July 1, 2006 through June 20, 2007, for the purpose of continuing to purchase clinical and academic services from Drew University. The maximum annual County obligation in Fiscal Year 2006-07 under this amended Agreement will be \$12,029,152.

The primary purpose of this Amendment No. 1 is to extend for one year the current Affiliation Agreement which is scheduled to expire on June 30, 2006. The Department of Health Services (Department or DHS) and Drew University intend to negotiate a new agreement during Fiscal Year 2006-07. It is anticipated that negotiations for a new agreement will commence immediately following the approval by your Board of Amendment No. 1.

FISCAL IMPACT/FINANCING:

The maximum annual County obligation in Fiscal Year 2006-07 under this amended Agreement will be \$12,029,152. Agreement costs are detailed in Table A.9 of Addendum A.1 to the amended Agreement (see below). A 2.5 percent Cost of Living Adjustment has been added to the categories of University Administration and Academic Administrative services.

Table A.9

NEW TABLE or Section	DESCRIPTION	CURRENT AGREEMENT	AMENDMENT NO. 1	VARIANCE
A.3	Purchased Clinical Services	\$3,626,172	\$2,568,372	(\$1,057,800)
A.4	Purchased Academic Services	\$5,563,750	\$5,554,000	(\$9,750)
A.5	University Administration (Fixed Academic Cost)	\$1,789,230	\$1,834,000	\$44,770
A.6	Academic Administrative Services (Hospital)	\$1,125,000	\$1,153,000	\$28,000
A.7	Faculty Recruitment and Retention Fund	\$0	\$994,780	\$994,780
A.8	Faculty Teaching Incentive Fund	\$25,000	\$25,000	\$0
	Off-Set-Salama Lawsuit Settlement	(\$100,000)	(\$100,000)	\$0
	MAXIMUM TOTAL PAYMENT	\$12,029,152	\$12,029,152	\$0

Funding is included in the Fiscal Year 2006-07 Proposed Budget.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS:

Current Affiliation Agreement

On September 14, 2004, your Board authorized the Chairman of the Board of Supervisors to sign an Agreement with Drew University for the provision of clinical and academic services at KDMC and HHHCHC for the period beginning October 1, 2004 through June 30, 2006, for a maximum County obligation of \$9,028,114 for the contract period of October 1, 2004 through June 30, 2005 and \$12,029,152 for the contract period July 1, 2005 through June 30, 2006.

During the two-year period of the current agreement, Drew University representatives expedited critical decisions that improved management oversight of residency training programs and general operational goals. Compliance with the County's tough financial and graduate medical education reporting requirements helped the University bring focus to management planning and performance, areas where achievement was critical for the attainment of academic and operational goals. Drew University's progress is significant, as recognized when the Accreditation Council of Graduate Medical Education (ACGME) restored full institutional accreditation in April of this year. With the hiring of a permanent President, the University has gone a step further in signaling its commitment to meeting academic and operational goals. The Department is confident that this work will be completed over the coming year covered by this Agreement amendment.

The Department recognized that the financial structure of the current Agreement did not provide Drew University with the flexibility needed to meet changing educational needs. The proposed agreement extension with amendments specifically addresses, within the maximum agreement obligation, the need for funding flexibility while maintaining appropriate Departmental oversight. The Department will begin negotiations for a full term agreement immediately following your Board's approval of the proposed agreement extension. The future Agreement will have a structure that is consistent with other medical school operating agreements. The proposed agreement extension allows the Department sufficient time for the thoughtful development of the next agreement while simultaneously addressing revisions needed in the current Agreement. The proposed agreement extension with amendments is not necessarily a template for what any future agreement will look like.

During the term of the initial Agreement, Drew University did not provide all defined clinical and academic services and paid financial penalties for not meeting certain contract requirements. The Department will instruct the DHS Audit and Compliance Division to work with the County Chief Administrative Officer in cooperation with Drew University to retain and brief an appropriate external audit firm to conduct an independent financial audit of all billings and payments as provided under the current Agreement to ensure that Drew University has been paid for all work that has been provided and is documented in sufficient detail consistent with the terms of the Agreement.

Amendment No. 1

Amendment No. 1 makes substantive changes to and extends the Agreement for one year. It sets the maximum annual County obligation in fiscal Year 2006-07 under this amended Agreement at \$12,029,152 and allows the Director to continue to purchase clinical and academic services from Drew University.

At County's sole discretion, the specific number of monthly Academic Service Units allocated to each Specialty may be reallocated to another Specialty upon the advance written approval of the Director. Reallocation of Academic Service Units between Specialties may not exceed the total cost for Academic Service Units.

Retroactive Payment

The Amendment provides that, retroactive to October 1, 2004, the Department will purchase academic services using a revised definition of the term Academic Service Unit. The new definition will enable Drew University to aggregate hours of academic service provided by individual Faculty members within a specialty and thus receive appropriate credit and payment for academic services rendered to the County.

Additionally, the Amendment provides that retroactive to October 1, 2004, the Department will pay for stipends paid by Drew University for six faculty members hired or retained at the request of KDMC to meet clinical and/or academic accreditation requirements.

The recommended retroactive payment to Drew University from existing funds is as follows: 1) retroactive to October 1, 2004, a total sum not to exceed \$1,707,916 resulting from the new definition of Academic Service Units, and 2) retroactive to October 1, 2004, \$683,417 for stipends to recruit new Department Chairs to fill vacancies in Psychiatry, Otolaryngology, and Neurosurgery; the promotion of the then Acting Chair of Family Medicine; and retention of a Vascular Surgeon. Recruitment and placement of the new Department Chairs was required in advance of the ACGME institutional site visit conducted in January 2006. In April 2006, the ACGME restored full institutional accreditation to Drew University.

Funding for retroactive payment for Academic Services Units and the retroactive payment of stipends from October 1, 2004 to support the recruitment of Department Chairs and retention of two Vascular Surgeons will come from existing contract funding for academic and clinical services not provided by Drew University. Faculty members were hired or retained at the request of KDMC to meet clinical and/or academic accreditation requirements. Retroactive payment to Drew University will not change the maximum annual County obligation in any Fiscal Year.

This Amendment No. 1, through Addendum A-1 and Addendum B-1, makes the substantive changes described below

ADDENDUM A-1. This addendum now includes a Faculty Recruitment and Retention Fund which was established with \$994,780 for additional stipends to assist in recruiting new Faculty and retaining existing Faculty in hard-to-recruit specialties. To insure accountability, the Facility Joint Planning and Operations Committee will make all determinations regarding use of this Fund. In addition, this Addendum A-1 reflects increases in the rates paid for academic service units using guidelines from the Association of American Medical Colleges.

ADDENDUM B-1. Since July 1, 2005, Drew University has been in full compliance with education performance reporting requirements. These requirements were modified in the recommended Amendment No. 1 to the Agreement to be similar to the requirements approved by the Department for the UCLA and USC Affiliation Agreements. Drew University continues to be obligated to compensate the County whenever it fails to provide required reports. Performance guarantees for the loss of training program accreditation (\$300,000) and programs placed on probation (\$150,000) were removed to reflect the commitment and cooperation required by both County and Drew University to maintain accreditation. On April 14, 2006, the ACGME notified Drew University of its

determination to restore institutional accreditation and extend it for the maximum term with no required reporting in that two-year period. This represents a very favorable milestone as Drew University continues to implement reforms to improve physician training. Reporting requirements and performance guarantees are unchanged for physician compensation and expenditures for clinical and academic performance.

Method of Payment

The Department will ask the Auditor-Controller to review the process by which Drew University's invoices are reviewed and paid by KDMC to insure that this process follows the terms of the Agreement.

Recognition of Structural Issues

Both the County and Drew University recognize there are structural issues in Addendum A that have caused unintended consequences. It is the County's intention to address these issues in negotiations with Drew University for a new Agreement following the approval by your Board of Amendment No. 1.

Primary Sponsorship of King/Drew Medical Center Training Programs

Drew University is recognized by the ACGME as the sponsor of record of academic programs at KDMC. Los Angeles County is recognized by the ACGME as a participating sponsor.

The Amendment provides: "University and County agree that at County's discretion, sponsorship of all County training programs, except Family Medicine, Obstetrics and Gynecology and Pediatrics, may be transferred from University to County and parties will work cooperatively to effectuate any such transfer of sponsorship." This modification was made in recognition of the requirements KDMC and the County would need to meet in order to receive ACGME sponsorship status.

All efforts to change the status of sponsorship shall be done in full accordance with ACGME requirements. Should the County see fit to seek ACGME sponsorship status, the University agrees to take all necessary actions and to provide all necessary approval for any transfer of sponsorship as may be required by the ACGME. Failure by Drew University to fully and timely cooperate in any transfer of sponsorship shall constitute a basis for termination for cause pursuant to Paragraph 7.4 of this Agreement.

TERM AND TERMINATION:

The termination provisions of the Agreement have also been revised. As with the current Agreement, the Agreement may still be terminated immediately upon loss of essential accreditation or license. The Agreement may now be terminated for cause upon only 90 days notice to either party or terminated immediately upon closure of the hospital.

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CONTRACTING PROCESS:

Because this Amendment No. 1 to the Agreement is a renegotiation of an existing Agreement between the County and Drew University, and the services are specific to Drew University, the Department did not advertise this Agreement on the Los Angeles County Online Website. Additionally, given the nature and scope of the services provided by Drew University under the Agreement, as well as the historic relationship between the County and Drew University, the Department determined it was not feasible to competitively bid this contract.

It has been determined that clinical services fall under Proposition A guidelines and as such are subject to the provisions of the County's Living Wage Program. In accordance with County policy, the Auditor-Controller was not required to review DHS' cost analysis establishing ongoing cost effectiveness since this is an amendment to an existing agreement. County Counsel has advised that Proposition A does not apply to contracts for academic services. Therefore, the portions of the Agreement relating to academic services are not governed by Proposition A.

IMPACT ON CURRENT SERVICES (OR PROJECTS):

The amended Agreement will continue the provision of clinical and academic services at the KDMC, HHHCHC, and designated Southwest Cluster facilities.

When approved, the Department requires the original and three signed copies of the Board's action.

Respectfully submitted,



Bruce A. Chernof, M.D.
Director and Chief Medical Officer

BC: ll

Attachment (1)

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors